

**SMUD****SACRAMENTO MUNICIPAL UTILITY DISTRICT**
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June 15, 2007

CSDIR 007-008

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California Energy Commission
Dockets Office, MS-4
Re: Docket No. 06-IEP-1E
1516 Ninth Street
Sacramento, CA 95814-5512

DOCKET	
06-IEP-1E	
DATE	JUN 15 2007
RECD.	JUN 15 2007

Re: Sacramento Municipal Utility District's IEPR Joint Committee Post-Workshop
Comments on Demand Response and the Commission's Load Management
Authority in Preparation of the 2007 Integrated Energy Policy Report
(2007 IEPR -Demand Response)

The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to comment on the California Energy Commission's (Commission) process on issues and opportunities associated with California's demand response and load management for the Integrated Energy Policy Report (IEPR). SMUD has enclosed general comments regarding its current programs as well as comments addressing the questions posed to stakeholders at the June 5, 2007, IEPR Joint Committee Workshop.

If you have any questions regarding our comments, please do not hesitate to contact Mr. Jim Parks, Program Manager of Energy Efficiency and Customer Research and Development at (916) 732-5252 or the undersigned at (916) 732-6252.

Sincerely,

Paul Lau, Director, Customer Services
Sacramento Municipal Utility District

Enclosure

Sacramento Municipal Utility District's IEPR Joint Committee
Post-Workshop Comments on Demand Response
and the Commission's Load Management Authority in
Preparation of the 2007 Integrated Energy Policy Report
(2007 IEPR –Demand Response)

Docket No. 06-IEP-IE

I. INTRODUCTION

The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to submit post-workshop comments in response to the June 5, 2007 IEPR Joint Committee Workshop on Demand Response and the Energy Commission's Load Management Authority (2007 IEPR – Demand Response). The August 6, 2006 Committee Scoping Order for the 2007 IEPR identified demand response and load management tools as key topics to be reviewed in the development of the 2007 IEPR. The IEPR Joint Committee requested that stakeholders comment on whether the California Energy Commission (Commission), in conjunction with the California Public Utilities Commission (CPUC), in investigating opportunities to expand California's demand response programs, should consider amendments to the 1979 Commission load management standards to accelerate the current pace of demand response implementation.

SMUD is a customer-owned municipal utility engaged in the generation, distribution, purchase, and sale of electric power to approximately 1.4 million consumers within its boundaries, which encompass most of the County of Sacramento and small portions of the Counties of Placer and Yolo, both in California. SMUD has a long history as a strong advocate of energy efficiency and load management, recognizing the environmental and economic benefits that can be derived from the utilization of energy efficiency standards and measures, and the reliability and market price benefits of reducing peak load. SMUD supports the Joint Committee's efforts in developing statewide demand response (DR) capabilities needed to address California's increase in peak demand. SMUD believes that demand response and load management programs and technologies are the most promising and can be the most cost-effective options for mitigating peak demand impacts.

Since the mid- through late- 1970's, SMUD has maintained active demand response programs and tariffs in support of the Commission's efforts to study and develop load management standards. SMUD is in the process of reviewing those programs in light of its load serving capability and resource needs, including restructuring rates to better reflect marginal costs and designing load management and other demand response programs to utilize emerging enabling technologies. In addition, SMUD is collaborating with national experts in several research projects to assess the role of customer behavior in load reduction, and the incremental benefits of coupling new technologies with time-based or dynamic rates.

SMUD's comments address some questions listed in Attachment A to the Workshop Notice as they relate to issues raised in the white paper and Workshop: 1) whether the

Commission has or should exercise the authority to establish load management standards for publicly owned utilities (POUs); 2) concerns that should be addressed in the development of DR standards; and 3) whether the strawman proposals outlined in the white paper are the appropriate form of standards.

II. COMMISSION LOAD MANAGEMENT AUTHORITY

During the Workshop, Commission Counsel Jonathan Blees expressed the opinion that the Commission has independent authority under Public Resources Code, Chapter 25403.5, to enact standards for all non-rate-based DR through its standard rulemaking process. Enactment of rate-based DR standards requires approval by the CPUC through the ratemaking process for IOUs, and approval by the Boards of Directors of the POUs through their defined ratemaking processes. Mr. Blees identified direct load control and end use storage systems as non-rate-based programs.

The distinction Mr. Blees makes between rate-based and non-rate-based DR is not as clear in practice as may appear in principle. Contrary to Mr. Blees' characterization of direct load control as a non-rate-based program, for many years the incentive for SMUD's Residential Air Conditioning Load Management (direct load control) program was a rider to the standard tiered rate. In fact, DR program designers can use any of several mechanisms to induce DR: cost-based or dynamic rates, performance-based incentives, mandated participation or public appeals. Some of these inducements are mutually exclusive, but others are not. As Dr. Faruqi, co-author of "*California's Next Generation of Load Management Standards*," points out in his white paper and presentation at the Workshop, initial research indicates that there is considerable incremental value in combining inducements, that is, in adjusting both rates and program incentives.

These synergies between pricing and load management programs benefit customers, utilities and society at large through reduced electric bills, avoided more costly long-term investments in thermal resources, reduced long-term revenue requirements and rates, and reduced emissions. In addition, cost-based dynamic rates are more equitable, more economically efficient, and more effective in changing energy use behavior. For these reasons, SMUD believes that requiring load control programs in the absence of dynamic rates, as the Commission is considering for POUs, is neither effective nor sound public policy. In the design of its new DR programs, SMUD is first developing an appropriate pricing platform upon which other demand-side programs and strategies are based.

III. ISSUES AND CONCERNS

SMUD strongly believes that it is not in the best interests of California POU customers for the Commission to establish DR goals, nor to prescribe DR program designs. Determination of goals for DR depends not just on potential, but on a multitude of variables, not the least of which are the individual resource needs and load serving capabilities of utilities. Most demand response programs have some operational control value, and this value varies by load availability

in relation to demand, at local levels as well as at the grid. Developing goals based solely on the demand side ignores the value and constraints of DR as an operational resource. SMUD believes that individual utilities have the authority, the obligation, and the understanding to make the best decisions relating to system operations within their service territories.

In addition, the established industry methodology for determining economic and market potential excludes a host of other DR opportunities and benefits, such as new program delivery models, education and behavioral changes, bundling and integration with energy efficiency, local energy ordinances, high profile awareness campaigns, greater customer engagement, and latent enabling technologies—in other words, the very opportunities that make DR so promising a solution to California's peak load problem. SMUD hopes that the discourse of the IEPR proceedings will focus on a comprehensive statewide approach to the planning of DR technologies and initiatives that explores these many opportunities, rather than the application of specific goals and program designs to all utilities, regardless of individual needs and capabilities.

An issue that lies at the core of resource decisions around DR and the setting of DR standards is valuation. Several proceedings addressing DR resource valuation are underway in California. The CPUC is addressing benefits of DR (that are in addition to avoided costs) as well as cost-effectiveness methodologies appropriate to DR in its rulemaking 07-01-041. The CPUC plans to address the methodology for determining avoided costs for DR in Phase 3 of its rulemaking 04-04-025, which has yet to be scheduled. Without consensus on how to value DR for comparisons among DR programs or with other resource alternatives, the notion of "cost-effective DR" is spurious. As Public Resources Code, Chapter 25403.5, authorizing the CEC to set load management standards also specifically requires any program created by the CEC to be "cost-effective relative to the cost of new electrical generation capacity," it is SMUD's belief that the Joint Agencies are required by common sense if not law to settle valuation and resource comparison issues prior to developing load management standards.

IV. STRAWMAN PROPOSALS

The white paper posits three strawman proposals for load management standards the Commission might set: 1) a default dynamic tariff in conjunction with opt-out non-dynamic tariffs that are fully burdened with costs, including a hedging premium; 2) a mandatory emergency dispatch program controlling temperature set points of programmable communicating thermostats (PCTs); and 3) a mandatory emergency dispatch program to energy management and control systems or other end use control devices.

SMUD agrees that all three strawman proposals have merit, and in fact is considering these and other strategies in the redesign of its rates and DR programs. SMUD does not agree, however, that any or all of these proposals should be mandated statewide as load management standards. SMUD believes that the Commission can better further the implementation of DR in California by providing a forum for open discussion of critical DR issues and a framework for developing DR guidelines in a more collaborative rather than a regulatory fashion.

SMUD believes there is a role for a comprehensive statewide approach to the planning of DR technologies and initiatives. Furthermore, SMUD believes that the development of

consistent DR program guidelines across the state is not only an important tool for advancing DR in California as a whole, but can also be in the best interest of Sacramento utility customers. SMUD is too small to move markets on its own, but with consistent statewide program guidelines, concept and generic program marketing, and enabling infrastructures and technologies, all California stakeholders can benefit. The most effective way for the Joint Agencies to bring together all DR stakeholders (POUs, IOUs, municipalities, other government agencies, community based organizations, research communities and implementing partners such as manufacturers and distributors) to develop statewide DR guidelines is to provide a forum that allows for consensus policymaking such that everyone benefits.

However, providing a forum for discussion and consensus decision-making is not enough. The Joint Agencies cannot expect to simply "build it and they will come." Many of the stakeholders in such a process are unfamiliar with the regulatory arena and may have reservations about participating. The Joint Agencies will need to engage in outreach and actively market the need for, the benefits of and the nature of a collaborative DR planning process to all stakeholders, and especially to the smaller entities.

PROOF OF SERVICE

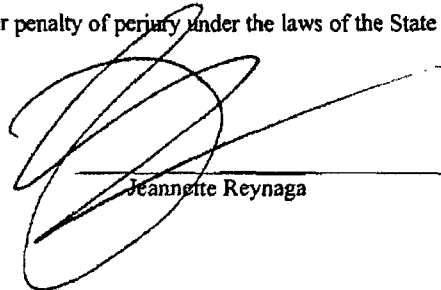
I declare that on June 15, 2007, I submitted **Sacramento Municipal Utility District's IEPR Joint Committee Post-Workshop Comments on Demand Response and the Commission's Load Management Authority in Preparation of the 2007 Integrated Energy Policy Report (2007 IEPR – Demand Response)** | Docket No. 06-IEP-1E by electronic-mail and deposited the original in the United States mail in Sacramento, California, with first class postage and addressed to the following:

docket@energy.state.ca.us
Portable Document File [SMUD Comments 2007 IEPR]

**California Energy Commission
Dockets Office, MS-4
Re: Docket No. 06-IEP-1E
1516 Ninth Street
Sacramento, CA 95814-5512**

I declare under penalty of perjury under the laws of the State of California that the foregoing
is true and correct.

Dated: June 15, 2007



Jeannette Reynaga